

Report on the

# **Macon County Board of Education**

**Macon County, Alabama**

**October 1, 2011 through September 30, 2012**

Filed: July 12, 2013



## **Department of Examiners of Public Accounts**

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*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

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Honorable Ronald L. Jones  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the audit of the Macon County Board of Education, Macon County, Alabama, for the period October 1, 2011 through September 30, 2012.

Sworn to and subscribed before me this  
the 18th day of June, 2013.

Saiee Y. Hand  
Notary Public

Respectfully submitted,

Michael L. Lambert

Michael L. Lambert  
Examiner of Public Accounts

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Macon County Board of Education  
October 1, 2011 through September 30, 2012**

The Macon County Board of Education (the "Board") is governed by a five-member body elected by the citizens of Macon County. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 10. The Board is the governmental agency that provides general administration and supervision for Macon County public schools, preschool through high school.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14.

An unqualified opinion was issued on the financial statements, which means that the Board's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2012.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

The following officials/employees were invited to an exit conference to discuss the contents of this report: Superintendent: Dr. Jacqueline A. Brooks, Ed. D.; Chief School Financial Officer: Natalie Young; and Board Members: Theodore Samuel, Elnora Smith Love, Katy Campbell, Mary H. Hooks, and Karey Thompson. The following individuals attended the exit conference, held at the Board's offices: Superintendent: Dr. Jacqueline A. Brooks, Ed. D.; Chief School Financial Officer: Natalie Young; and Board Members: Theodore Samuel, Mary H. Hooks, and Karey Thompson; and a representative of the Department of Examiners of Public Accounts: Michael Lambert, Examiner. The contents of this report were discussed via telephone with Board Member, Katy Campbell.

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*Independent Auditor's Report*

## **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Macon County Board of Education, as of and for the year ended September 30, 2012, which collectively comprise the Macon County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6. These financial statements are the responsibility of the Macon County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

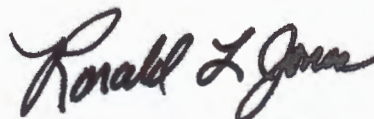
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Macon County Board of Education, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated June 18, 2013 on our consideration of the Macon County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 7 and 8), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Macon County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 9) is presented for the purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

June 18, 2013

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*Management's Discussion and Analysis*  
*(Required Supplementary Information)*

## **MACON COUNTY BOARD OF EDUCATION Management Discussion and Analysis (MD&A)**

### **Introduction**

The Macon County Board of Education's management discussion and analysis of the Board's financial performance provides an overall view of the Board's financial activities for the fiscal year ending September 30, 2012. The intent of this discussion and analysis is to look at the Board performance as a whole. Readers should also review the notes to the financial statement to enhance their understating of the Macon County Board of Education's financial performance.

The Governmental Accounting Standards Board (GASB) adopted Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments* in June 1999. Certain comparative information between the current year and prior year is required to be presented in the MD&A and it is included in the report.

### **Financial Highlights**

Our financial statements provide an insight into the results of this year's operations:

- The Board's total net assets decreased \$338,724.27 over this fiscal year.
- The assets of the Board exceeded its liabilities at the close of the fiscal year 2012 year by \$11,518,147.66 (net assets).
- The total cost of the Board's programs for the year was \$27,704,702.95 The State Foundation Program provided \$15,319,285.00 and of that amount \$1,608,528.00 was local money required by the 10-mill match. The 10-mill match is local revenue required to be code as state revenue.
- During the year, total revenues and other financing sources for the General Fund exceeded expenditures and other financing uses by \$125,187.24.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$930,182.67.

### **Overview of the Financial Statement**

The following discussion and analysis serve as an introduction to the school system's basic financial statements, which are (1) the government-wide financial statements, (2) fund financial statements, and (3) the notes to the financial statements. This report includes supplementary information in addition to the basic financial statements.

The first two statements are government-wide financial statements: the **Statement of Net Assets** and the **Statement of Activities**. These provide both long-term and short-term information about the System's overall financial status. Although other governments may report governmental activities and business-type activities, our system has no business-type activities.

The **Statement of Net Assets** (exhibit #1) is most closely related to a balance sheet. It presents information on all of the System's assets, less liabilities, which result in net assets. The statement is designed to display the financial position of the district. Over time, increases and decreases in net assets help determine whether the district's financial position is improving or deteriorating.

The **Statement of Activities** (exhibit #2) is most closely related to an income statement. It provides information which shows how the System's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenue of the System (mostly local taxes), or is financed through charges for services (lunchroom) and intergovernmental aids (generally federal programs and state appropriations).

**Fund Financial Statements** give more detailed information about the System's most significant funds. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The System uses fund accounting to ensure and demonstrate fiscal accountability.

**Governmental Funds** - Most of the System's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year's end that are available for spending. The governmental funds statements (the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund balance) are reported using an accounting method called modified accrual accounting. This accounting method measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the future to finance the district's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement follow the basic financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain *Required Supplementary Information (RSI)* other than the MD&A consisting of budgetary comparison schedule for the General Fund and Special Revenue Fund. The schedule includes an accompanying note explaining the difference between actual amounts as reported on the basis of budgeting and the generally accepted accounting principles (GAAP) basis of reporting.

## **Financial Analysis of the Board as a Whole**

As noted earlier, the Macon County Board of Education has no business-type activities. Consequently, all of the Board's net assets are reported as Governmental Activities.

### MACON COUNTY BOARD OF EDUCATION Net Assets

	Governmental Activities 2012	Governmental Activities 2011
Current Assets	\$ 14,217,713.01	\$ 12,260,900.36
Capital Assets	<u>\$ 33,392,537.96</u>	<u>\$ 32,932,256.52</u>
Total Assets	<u>\$ 47,610,250.97</u>	<u>\$ 45,193,156.88</u>
Current and other liabilities	\$ 5,132,692.12	\$ 5,889,368.16
Long-term liabilities	<u>\$ 30,959,411.19</u>	<u>\$ 27,446,916.79</u>
Total Liabilities	<u>\$ 36,092,103.31</u>	<u>\$ 33,336,284.95</u>
Net assets:		
Invested in capital assets, Net of related debt	\$ 8,602,837.60	\$ 8,879,352.86
Restricted	\$ 1,701,669.66	\$ 1,930,874.34
Unrestricted	<u>\$ 1,213,640.40</u>	<u>\$ 1,046,644.73</u>
Total Net Assets	<u>\$11,518,147.66</u>	<u>\$11,856,871.93</u>

The System's assets exceeded liabilities by \$11,518,147.66 at the close of the fiscal year. This is a decrease in net assets of 2.86% or \$338,724.27 from prior fiscal year. The majority of the System's net assets are invested in capital assets (land, buildings, and equipment) owned by the System. These assets are not available for future expenditures since they will not be sold. Unrestricted net assets- the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements – are \$1,213,640.40 at the end of the year.

The System's total revenues and expenditures are in the following table:

Macon County Board Of Education  
Changes in Net Assets

Governmental Activities

<b><u>Revenues</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Program Revenues:</b>		
Charge for services	\$ 1,895,857.23	\$ 1,915,357.87
Operating grants and contributions	\$19,017,927.93	\$20,293,734.90
Capital grants and contributions	\$ 923,023.33	\$ 795,693.63
<b>General revenues:</b>		
Property taxes	\$ 4,520,214.75	\$ 4,294,516.35
Other Taxes	\$ 57,625.62	\$ 56,648.41
Grants and contributions not Restricted for specific programs	\$ 71,081.13	\$ 73,620.64
Investment earnings	\$ 567,019.23	\$ 234,390.07
Miscellaneous	<u>\$ 313,229.46</u>	<u>\$ 414,292.74</u>
Total revenues	<u>\$27,365,978.68</u>	<u>\$28,078,254.61</u>
 <b><u>Expenses</u></b>		
Instruction	\$12,489,266.27	\$13,058,660.33
Instructional Support Services	\$ 4,645,810.11	\$ 4,662,822.01
Operation & Maintenance Services	\$ 2,665,885.55	\$ 2,987,758.15
Student Transportation	\$ 2,090,027.90	\$ 2,263,848.79
Food Services	\$ 1,892,266.87	\$ 1,993,518.15
General Administration Services	\$ 2,124,289.99	\$ 1,962,273.06
Other	\$ 472,008.13	\$ 568,172.12
Interest and Fiscal Charges	<u>\$ 1,325,148.13</u>	<u>\$ 1,105,934.47</u>
Total expenses	<u>\$27,704,702.95</u>	<u>\$28,602,987.08</u>
 Change in Net Assets	 \$ (338,724.27)	 \$ (524,732.47)
Net Assets Beginning	<u>\$11,856,871.93</u>	<u>\$12,381,604.40</u>
Net Assets ending	<u>\$11,518,147.66</u>	<u>\$11,856,871.93</u>

Program revenues, specifically operating grants and contributions are the largest component of total revenues (69%).

- Operating grants and contributions contributed 87% of program revenues and 69% of total revenues. The major sources of revenues in this category are state foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.

- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and other taxes are used to provide \$5,529,170.19 for expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the System.

- In addition to teacher salaries and benefits, instructional services include: teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials/supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include salaries and benefits for mechanics and bus aides, vehicles maintenance, repair expenses, vehicle fuel, depreciation of buses and bus shop, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, lunchroom managers, and cashiers; as well as, donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest and principal payments on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.

### **Financial Analysis of the Board's Funds**

The governmental funds are analyzed for the purpose of determining what resources entered into the funds, how they were spent, and the availability of funds for futures expenditures. At the end of fiscal year, the System's governmental fund reported combined ending fund balances of \$8,450,254.08.

### **General Fund**

The General Fund is the primary operating fund of the System. The System had an increase in fund balance by \$125,187.24 for the 2012 fiscal year due to decreases in expenditures.

Management continues to conservatively plan for further decreases in state revenue due to current economic conditions.

### **Special Revenue Fund**

This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes that are outlined in the federal grant. This fund includes various federal funds and local funding sources. Child Nutrition Program and Title I would be considered the largest of the federal fund sources. Local funding sources include public and non-public funds received by the local schools that are generally not considered restricted or committed.

### **General Fund Budgetary Highlights**

The original 2012 fiscal year budget was adopted on September 16, 2011 and was based on a conservative approach that reflected only guaranteed revenue and necessary expenditures since some of the state-funded programs had not been authorized at this point. The Budget was amended on June 2, 2012 for significant differences in State revenue, instructional support services, and transfers out, since the Board had received the final allocation. In addition, the property tax was reclassified and served as a transfer out of the Debt Service Fund. The Budget was also amended to reflect the actual ending balances from fiscal year 2011.

### **Special Revenue Fund Budgetary Highlights**

The Budget was amended to budget Federal Program carryover and to update projected beginning balances to reflect the actual ending fund balances from fiscal year 2011.

### **Capital Assets and Debt Administration**

The Board had approximately \$33.3 million invested in capital assets including land, buildings, and equipment costing \$5,000 or more including buildings and equipment under capital lease as of September 30, 2012. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent reclassifications of assets during the year and depreciation of depreciable assets for the year. Capital Assets used in governmental activities are not financial resources and therefore not reported as assets in governmental funds. These assets consist of:

Capital Assets (Net of Depreciation)

	<b>2012</b>	<b>2011</b>
Land Improvements	\$ 576,948.73	\$ 625,765.95
Construction in Progress	\$ 757,840.20	\$ 2,107,742.92
Building and Improvements	\$ 30,057,118.74	\$ 28,378,757.81
Equipment & Furniture	\$ 882,322.65	\$ 814,165.64
Vehicles	<u>\$ 1,118,307.64</u>	<u>\$ 1,005,824.20</u>
Capital Assets, Net of Depreciation	<u>\$ 33,392,537.96</u>	<u>\$ 32,932,256.52</u>

**Long-Term Debt**

At the end of fiscal year 2012, the System had \$30,959,411.19 in warrants payable, notes payable, and capital lease and other long-term debt outstanding. (Additional information on the System's long-term debt is presented in the notes to the basic financial statement).

Outstanding Long-Term Debt  
Governmental Activities  
For Year End September 30, 2012

	Beginning Balance	Net Change	Ending Balance
Warrants	\$ 4,676,645.75	\$ 5,196,805.87	\$ 9,873,451.62
2011-QZAB Capital Outlay Pool Warrant	\$ 1,500,000.00		\$ 1,500,000.00
2004 Funding Agreement	\$ 4,370,000.00		\$ 4,370,000.00
2006 Funding Agreement	\$17,725,000.00	\$ (1,615,000.00)	\$16,110,000.00
Deferred Amounts- Unamortized Discount	\$ (427,006.09)	\$ 40,491.00	\$ (386,515.09)
Deferred-Unamortized Loss on Refunding	\$ (397,722.87)	\$ (109,802.47)	\$ (507,525.34)
Total	<u>\$27,446,916.79</u>	<u>\$ 3,512,494.40</u>	<u>\$30,959,411.19</u>



Long-term debt activity for the year consisted of the following:

- The System increased long-term debt by \$3,512,494.40 due primarily to issuing a Capital Outlay Warrant.

**Economic Factors and Next Year Budget**

The following are current known economic factors considered going into 2012-2013 fiscal year.

- VictoryLand, which was a major employer and property tax payer in the county is not operational and will likely not pay property taxes this year.
- The System has prepared for an economic downturn well with additional local and conservative spending and allocation of resource.

**Student Enrollment:**

The student enrollment in Macon County schools has continued to decline for the last seven years.

The latest forty-day count Fiscal Year 2013 (2,587) was taken as of October 2012, and reports that we have lost approximately 80 students.

Fiscal Year	40 Day ADM
2012	2,668.80
2011	2,766.65
2010	2,964.00
2009	3,077.85
2008	3,264.65
2007	3,518.65
2006	3,614.05

**Medical and Retirement Cost** – Health insurance and retirement costs have increased significantly for last seven fiscal years.

	Retirement %	Health Insurance
FY2013	10.08	714.00
FY2012	10.00	714.00
FY2011	12.51	752.00
FY2010	12.51	752.00
FY2009	12.07	752.00
FY2008	11.75	775.00
FY2007	9.36	717.00

### **Contacting the School Board**

The MD&A is designed to provide its reader with insight into the Board's financial performance. If you have any questions about this report or need additional information, contact Natalie Young, Chief School Financial Officer, 501 South School Street, Tuskegee, AL. 36083 or by calling (334) 727-1600 ext. 11010 during business hours, Monday- Friday 8:00 a.m. to 4:30 p.m., central standard time.

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# *Basic Financial Statements*

***Statement of Net Assets***  
***September 30, 2012***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 4,776,389.38
Cash with Fiscal Agent	4,441,252.36
Investments	52,855.69
Ad Valorem Property Taxes Receivable	3,400,361.56
Receivables (Note 4)	486,465.62
Inventories	44,408.41
Deferred Charges	937,611.49
Prepaid Items	78,368.50
Capital Assets (Note 5):	
Nondepreciable	1,126,007.08
Depreciable, Net	32,266,530.88
Total Assets	<u>47,610,250.97</u>
<b><u>Liabilities</u></b>	
Accounts Payable	125,264.12
Deferred Revenue	3,563,120.00
Salaries and Benefits Payable	1,126,768.88
Accrued Interest Payable	317,539.12
Long-Term Liabilities:	
Portion Payable Within One Year:	
Warrants Payable	322,984.02
Unamortized Premium	13,508.69
2006 Funding Agreement	310,000.00
Unamortized Discount	(26,296.47)
Unamortized Loss on Refunding	(36,803.84)
Portion Payable After One Year:	
Warrants Payable	3,900,512.69
Unamortized Premium	148,944.88
2004 Funding Agreement	4,370,000.00
2006 Funding Agreement	15,800,000.00
2011-A QZAB	1,500,000.00
2012 Capital Outlay School Warrants	5,750,000.00
Unamortized Discount	(593,208.62)
Unamortized Loss on Refunding	(500,230.16)
Total Liabilities	<u>\$ 36,092,103.31</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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	<b>Governmental Activities</b>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	\$ 8,602,837.60
Restricted for:	
Debt Service	146,057.75
Capital Projects	667,362.65
Child Nutrition	861,583.36
Other Purposes	26,665.90
Unrestricted	<u>1,213,640.40</u>
Total Net Assets	<u><u>\$ 11,518,147.66</u></u>

***Statement of Activities***  
***For the Year Ended September 30, 2012***

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b><u>Governmental Activities</u></b>			
Instruction	\$ 12,489,266.27	\$ 89,805.48	\$ 10,532,977.49
Instructional Support	4,645,810.11	89,590.95	4,213,586.05
Operation and Maintenance	2,665,885.55	13,539.66	961,231.44
Auxiliary Services:			
Student Transportation	2,090,027.90	82,006.17	1,616,466.79
Food Service	1,892,266.87	1,577,555.12	84,907.72
General Administration and Central Support	2,124,289.99	1,229.31	1,246,456.11
Interest and Fiscal Charges	1,325,148.13		
Other Expenses	472,008.13	42,130.54	362,302.33
Total Governmental Activities	<u>\$ 27,704,702.95</u>	<u>\$ 1,895,857.23</u>	<u>\$ 19,017,927.93</u>

**General Revenues:**

Taxes:
Property Taxes for General Purposes
Property Taxes for Specific Purposes
Other Taxes
Grants and Contributions Not Restricted for Specific Programs
Investment Earnings
Miscellaneous
Total General Revenues
Changes in Net Assets
Net Assets - Beginning of Year
Net Assets - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities</u>
\$ 681,147.12	\$ (1,185,336.18)
	(342,633.11)
34,768.21	(1,656,346.24)
	(184,446.94)
207,108.00	(229,804.03)
	(876,604.57)
	(1,325,148.13)
	(67,575.26)
<u>\$ 923,023.33</u>	<u>(5,867,894.46)</u>

2,941,841.60  
1,578,373.15  
57,625.62

71,081.13  
567,019.23  
313,229.46  
5,529,170.19

(338,724.27)

11,856,871.93

\$ 11,518,147.66

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2012***

	<b>General Fund</b>	<b>Special Revenue Fund</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 1,817,093.12	\$ 1,045,968.67
Cash with Fiscal Agents		
Investments		52,855.69
Ad Valorem Property Taxes Receivable	3,400,361.56	
Receivables (Note 4)	119,626.96	366,838.66
Interfund Receivables	94,391.44	10,883.46
Inventories		44,408.41
Prepaid Items	78,368.50	
Total Assets	<u>5,509,841.58</u>	<u>1,520,954.89</u>
<b><u>Liabilities and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Accounts Payable	16,883.34	104,542.64
Interfund Payables	10,883.46	106,708.49
Accrued Interest Payable		
Deferred Revenues	3,400,361.56	162,758.44
Salaries and Benefits Payable	1,073,162.05	53,606.83
Total Liabilities	<u>4,501,290.41</u>	<u>427,616.40</u>
<b><u>Fund Balances</u></b>		
Nonspendable:		
Inventories		44,408.41
Prepaid Items	78,368.50	
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition		817,174.95
Other Purposes		26,665.90
Assigned to:		
Local Schools		205,089.23
Unassigned	930,182.67	
Total Fund Balances	<u>1,008,551.17</u>	<u>1,093,338.49</u>
Total Liabilities and Fund Balances	<u>\$ 5,509,841.58</u>	<u>\$ 1,520,954.89</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.



<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
\$ 517,885.05	\$ 1,395,442.54	\$ 4,776,389.38
844,621.24	3,596,631.12	4,441,252.36
		52,855.69
		3,400,361.56
		486,465.62
	12,317.05	117,591.95
		44,408.41
		78,368.50
<u>1,362,506.29</u>	<u>5,004,390.71</u>	<u>13,397,693.47</u>
	3,838.14	125,264.12
		117,591.95
14,694.44		14,694.44
		3,563,120.00
		1,126,768.88
<u>14,694.44</u>	<u>3,838.14</u>	<u>4,947,439.39</u>
		44,408.41
		78,368.50
1,347,811.85		1,347,811.85
	5,000,552.57	5,000,552.57
		817,174.95
		26,665.90
		205,089.23
		930,182.67
<u>1,347,811.85</u>	<u>5,000,552.57</u>	<u>8,450,254.08</u>
<u>\$ 1,362,506.29</u>	<u>\$ 5,004,390.71</u>	<u>\$ 13,397,693.47</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2012***

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Total Fund Balances - Governmental Funds (Exhibit 3) \$ 8,450,254.08

Amounts reported for governmental activities in the Statement of Net Assets  
(Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore,  
are not reported as assets in governmental funds.

The Cost of Capital Assets is	\$ 52,705,672.34	
Accumulated Depreciation is	<u>(19,313,134.38)</u>	
		33,392,537.96

Other long-term assets are not available to pay for current-period expenditures  
and therefore, are deferred on the Statement of Net Assets. 937,611.49

Long-term liabilities, including bonds payable, are not due and payable in the current  
period and therefore are not reported as liabilities in the funds.

Current Portion of Long-Term Debt	\$ 583,392.40	
Noncurrent Portion of Long-Term Debt	<u>30,376,018.79</u>	
		(30,959,411.19)

Interest on long-term debt is not accrued in the funds but rather is recognized as an  
expenditure when due.

Accrued Interest Payable		<u>(302,844.68)</u>
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Total Net Assets - Governmental Activities (Exhibit 1)		<u><u>\$ 11,518,147.66</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Revenues, Expenditures and Changes in Fund Balances***  
***Governmental Funds***  
***For the Year Ended September 30, 2012***

	General Fund	Special Revenue Fund
<b><u>Revenues</u></b>		
State	\$ 14,901,218.16	\$
Federal	329,437.00	5,317,071.23
Local	3,627,580.66	396,908.39
Other	119,969.82	58,839.07
Total Revenues	18,978,205.64	5,772,818.69
<b><u>Expenditures</u></b>		
Current:		
Instruction	10,192,922.94	1,377,869.03
Instructional Support	2,944,193.37	1,699,971.55
Operation and Maintenance	2,245,555.15	90,351.00
Auxiliary Services:		
Student Transportation	1,736,382.88	108,674.31
Food Service		1,877,382.15
General Administration and Central Support	1,520,048.94	537,795.75
Other	145,257.69	326,308.37
Capital Outlay		
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs/Other Debt Service		
Total Expenditures	18,784,360.97	6,018,352.16
Excess (Deficiency) of Revenues Over Expenditures	193,844.67	(245,533.47)
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	153,085.01	
Long-Term Debt Issued		
Premiums on Long-Term Debt Issued		
Transfers In	14,757.54	272,590.10
Other Financing Sources	36,090.12	
Discounts on Long-Term Debt Issued		
Payments to Refunding Escrow Agent		
Transfers Out	(272,590.10)	(14,757.54)
Total Other Financing Sources (Uses)	(68,657.43)	257,832.56
Net Changes in Fund Balances	125,187.24	12,299.09
Fund Balances - Beginning of Year	883,363.93	1,081,039.40
Fund Balances - End of Year	\$ 1,008,551.17	\$ 1,093,338.49

The accompanying Notes to the Financial Statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$ 625,743.90	\$ 297,279.43	\$ 15,824,241.49
		5,646,508.23
1,655,757.57	83.33	5,680,329.95
		178,808.89
<u>2,281,501.47</u>	<u>297,362.76</u>	<u>27,329,888.56</u>
	46,739.11	11,617,531.08
	448.49	4,644,613.41
	311,520.63	2,647,426.78
		1,845,057.19
		1,877,382.15
	19,301.84	2,077,146.53
		471,566.06
	1,733,047.44	1,733,047.44
737,085.24		737,085.24
968,950.48	196,650.00	1,165,600.48
75,019.39	166,068.51	241,087.90
<u>1,781,055.11</u>	<u>2,473,776.02</u>	<u>29,057,544.26</u>
<u>500,446.36</u>	<u>(2,176,413.26)</u>	<u>(1,727,655.70)</u>
		153,085.01
1,949,801.85	4,627,015.05	6,576,816.90
	149,524.86	149,524.86
399,026.42	205,575.00	891,949.06
		36,090.12
(79,005.97)	(153,984.03)	(232,990.00)
(1,338,381.36)	(973,412.37)	(2,311,793.73)
(205,575.00)	(399,026.42)	(891,949.06)
<u>725,865.94</u>	<u>3,455,692.09</u>	<u>4,370,733.16</u>
1,226,312.30	1,279,278.83	2,643,077.46
121,499.55	3,721,273.74	5,807,176.62
<u>\$ 1,347,811.85</u>	<u>\$ 5,000,552.57</u>	<u>\$ 8,450,254.08</u>

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***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2012***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)	\$	2,643,077.46
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.		
Capital Outlays	\$	1,733,047.44
Depreciation Expense		<u>(1,272,766.00)</u>
		460,281.44
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		737,085.24
Issuance costs on debt issuance are recorded as expenditures in the governmental funds, but are amortized in the Statement of Activities.		224,162.90
Discounts on debt issuance are recorded as other financing uses in the governmental funds, but are amortized in the Statement of Activities.		232,990.00
Payments to refunding escrow agent are recorded as other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		2,311,793.73
Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Assets but does not affect the Statement of Activities.		(6,576,816.90)
Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.		(149,524.86)
Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These items consist of:		
Accrued Interest Payable, Current Year Increase	\$	(74,601.04)
Amortization of Bond Discounts/Premiums/ Issuance Costs/Loss on Refunding		<u>(147,172.24)</u>
		<u>(221,773.28)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u><u>(338,724.27)</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**Note 1 – Summary of Significant Accounting Policies**

The financial statements of the Macon County Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

**A. Reporting Entity**

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

Generally accepted accounting principles (GAAP) require that the financial reporting entity consist of the primary government and its component units. Accordingly, the accompanying financial statements present the Board (a primary government).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

**B. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### **Fund Financial Statements**

The fund financial statements provide information about the Board's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Board reports the following major governmental funds:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, Teenage Pregnancy Prevention and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.
- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **D. Assets, Liabilities and Net Assets/Fund Balances**

##### **1. Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledge of the three-mill school tax and certificates of deposit.

All the Board's investments were in certificates of deposits. These accounts are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements. Investments are reported at fair value.

##### **2. Restricted Assets**

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash equivalents and cash with fiscal agents on the balance sheet are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bond revenues and proceeds are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

##### **3. Receivables**

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**4. Inventories**

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**5. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**6. Capital Assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 years
Buildings	\$50,000	5 – 50 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 10 years

**7. Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond/Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported gross with separate line items for the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **8. Net Assets/Fund Equity**

Net assets are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net asset by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

Fund equity is reported in governmental funds on the fund financial statements and is required to be classified for accounting and reporting purposes into the following fund balance categories:

- ◆ Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- ◆ Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove the constraint.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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- ◆ Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
  
- ◆ Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

#### **9. Minimum Fund Balance Policy**

The Board recognizes that the establishment and maintenance of adequate fund reserves is necessary to avoid disruption in the educational programs in the schools. The Superintendent or the Chief School Financial Officer will inform the Board, before the Board votes on a budget or budget amendment, if the approval of the budget or budget amendment will prevent the establishment or maintenance of a one-month's operating balance. A one-month's operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by 12 (twelve). In determining the General Fund expenditures and fund transfers out, the proposed budget or budget amendments, shall be used.

#### **Note 2 – Stewardship, Compliance and Accountability**

##### **Budgets**

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting. Capital projects funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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On or before October 1 of each year, each county board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the County Board of Education. The Superintendent or County Board of Education shall not approve any budget for operations of the school for any fiscal year which shall show expenditures in excess of income estimated to be available plus any balances on hand.

#### **Note 3 – Deposits and Investments**

##### **A. Deposits**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

##### **B. Cash with Fiscal Agent**

The Board has deposits totaling \$4,441,252.36 (\$844,621.24 in the Debt Service Fund and \$3,596,631.12 in the Capital Projects Fund) which is shown as Cash with Fiscal Agents on the fund financial statements and on the government-wide financial statements. These funds are invested in Federated U. S. Treasury Cash Reserves Funds. These money market funds invest primarily in U. S. Treasury securities maturing in 181 days or less. These funds are rated AAAM by Standard & Poor's with a weighted average maturity of 59 days and a weighted average life of 59 days.

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**Custodial Credit Risk** – For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in possession of an outside party. The Board does not have a formal investment policy that limits the amount of securities that can be held by counterparties.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board does not have an investment policy that limits an investment in any one issuer that is in excess of five percent of the Board’s total investments.

**Note 4 – Receivables**

On September 30, 2012, receivables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
<b>Receivables:</b>			
Accounts	\$	\$ 30,970.35	\$ 30,970.35
Intergovernmental	119,626.96	330,835.62	450,462.58
Other		5,032.69	5,032.69
<b>Total Receivables</b>	<b>\$119,626.96</b>	<b>\$366,838.66</b>	<b>\$486,465.62</b>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2012, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes	\$3,400,361.56	\$
Grant Drawdowns Prior to Meeting All Eligibility Requirements		162,758.44
<b>Total Deferred/Unearned Revenue for Governmental Funds</b>	<b>\$3,400,361.56</b>	<b>\$162,758.44</b>



**Notes to the Financial Statements**  
**For the Year Ended September 30, 2012**

**Note 5 – Capital Assets**

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/01/2011	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2012
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 368,166.88	\$	\$	\$ 368,166.88
Construction in Progress	2,107,742.92	757,840.20	(2,107,742.92)	757,840.20
Total Capital Assets, Not Being Depreciated	<u>2,475,909.80</u>	<u>757,840.20</u>	<u>(2,107,742.92)</u>	<u>1,126,007.08</u>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	1,634,818.26			1,634,818.26
Buildings and Building Improvements	41,668,319.51	2,596,612.92		44,264,932.43
Equipment and Furniture	1,824,371.40	150,000.00		1,974,371.40
Vehicles	3,369,205.93	336,337.24		3,705,543.17
Total Capital Assets Being Depreciated	<u>48,496,715.10</u>	<u>3,082,950.16</u>		<u>51,579,665.26</u>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	(1,377,219.19)	(48,817.22)		(1,426,036.41)
Buildings and Building Improvements	(13,289,561.70)	(918,251.99)		(14,207,813.69)
Equipment and Furniture	(1,010,205.76)	(81,842.99)		(1,092,048.75)
Vehicles	(2,363,381.73)	(223,853.80)		(2,587,235.53)
Total Accumulated Depreciation	<u>(18,040,368.38)</u>	<u>(1,272,766.00)</u>		<u>(19,313,134.38)</u>
Total Capital Assets Being Depreciated, Net	<u>30,456,346.72</u>	<u>1,810,184.16</u>		<u>32,266,530.88</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 32,932,256.52</u>	<u>\$ 2,568,024.36</u>	<u>\$(2,107,742.92)</u>	<u>\$ 33,392,537.96</u>
(*) Additions/Reclassifications and Retirements/Reclassifications include reclassifications in the amount of \$2,107,742.92, which were reclassified from Construction in Progress to Buildings and Building Improvements due to the completion of projects.				

Depreciation expense was charged to functions/programs of the primary government as follows:

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
Instruction	\$ 871,735.19
Instructional Support	1,196.70
Operation and Maintenance	18,458.77
<b>Auxiliary Services:</b>	
Food Service	96,347.90
Student Transportation	244,970.71
General Administration and Central Support	39,614.66
Other	442.07
Total Depreciation Expense – Governmental Activities	<u>\$1,272,766.00</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### Note 6 – Defined Benefit Pension Plan

##### A. Plan Description

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36130-2150.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**B. Funding Policy**

Employees are required to contribute 7.25 percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2012	2011	2010
Total Percentage of Covered Payroll	17.25%	17.51%	17.51%
<b>Contributions:</b>			
Percentage Contributed by the Board	10.00%	12.51%	12.51%
Percentage Contributed by the Employees	7.25%	5.00%	5.00%
Contributed by the Board	\$1,336,285.40	\$1,756,612.24	\$1,809,921.90
Contributed by Employees	968,802.53	702,083.25	723,392.60
Total Contributions	<u>\$2,305,087.93</u>	<u>\$2,458,695.49</u>	<u>\$2,533,314.50</u>

**Note 7 – Other Postemployment Benefits (OPEB)**

**A. Plan Description**

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **B. Funding Policy**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2012
Individual Coverage – Non-Medicare Eligible	\$151.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$391.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$250.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$658.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$847.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$816.00
Surviving Spouse – Medicare Eligible	\$328.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$517.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$486.00

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$28.00 per month for retired members that smoke.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2012	\$714.00	\$228.85	32.05%	\$ 884,798.26	100%
2011	\$752.00	\$198.94	26.45%	\$ 822,783.06	100%
2010	\$752.00	\$241.27	32.08%	\$1,048,194.75	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

**Note 8 – Long-Term Debt**

**Capital Outlay School Warrants**

On July 24, 2012, the Board issued \$5,750,000.00 of its Capital Outlay School Warrants dated July 1, 2012. The Capital Outlay School Warrants were issued to: (i) provide for advance refunding a portion of the Limited Obligation School Warrants, Series 2006, issued by the Macon County Commission on behalf of the Board pursuant to the 2006 Funding Agreement; (ii) construct, acquire, improve and equip certain capital improvements used to provide educational instruction; and (iii) pay the costs of issuing the Warrants. The net proceeds from the issuance were \$5,310,470.93 (after payment of original issue discount of \$232,990.00, issuance costs of \$221,233.51, and accrued interest of \$14,694.44). Additionally from the net proceeds, \$1,338,381.36 was deposited in an irrevocable trust to provide for the advance refunding of a portion of the Series 2006 Warrants issued pursuant to the 2006 Funding Agreement; \$3,500,000.00 was deposited to provide for payments for the capital improvements; and \$472,089.57 was deposited to provide for future interest payments on the Capital Outlay School Warrants. The Capital Outlay School Warrants will bear interest at 4% per year. Principal will be paid on April 1 and interest payments will be made on April 1 and October 1 beginning on October 1, 2012 and each year thereafter until the warrants are redeemed.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**Qualified Zone Academy Bonds (OZAB's)**

During fiscal year 2011, the Board authorized the issuance of its Capital Outlay Pool Warrant, Series 2011-QZAB dated June 2, 2011 in the amount of \$1,500,000 to evidence the Board's obligation to repay the Alabama Public School and College Authority for a Special Pool Loan in the amount of \$1,500,000. Pursuant to the Special Pool Loan Agreement, payments shall be made from a pledge of the Public School Fund Capital Purchase Funds that are allocated to the Board. Beginning on May 1, 2012 and ending May 1, 2026, the Macon County Board of Education is required to make fifteen (15) level installment deposits of \$75,143.42 into a sinking fund to provide for the payment of principal at the maturity date, whereupon the Board's obligation will be satisfied. Any failure to realize the expected return could result in an increase in the required sinking fund deposits. Deposits made into the sinking fund shall remain the property of the Board pledged for repayment of the Special Pool Loan. After paying issuance cost of \$5,600, the Board's net proceeds totaling \$1,494,400 was deposited into a Project Account to be used only for qualified purposes with respect to Qualified Zone Academies including the repair of the HVAC system at the Booker T. Washington High School located in Tuskegee, Alabama.

**Funding Agreements with Macon County Commission (2006 and 2004)**

On November 1, 2006, the Board entered into a funding agreement (in the form of a sale-lease back) with the Macon County Commission. Pursuant to this agreement the Board sold project improvements consisting of (i) a garage building or facility for the maintenance, repair and parking of school buses of the Board, (ii) an early childhood or kindergarten center for use by preschool children and (iii) renovations and improvements to D. C. Wolfe School and Notasulga High School in the County as well as project improvements to the Booker T. Washington High School, which is a consolidated high school building located in the City of Tuskegee, Alabama, to the Macon County Commission for \$19,640,000. To obtain the sum of \$19,640,000, the Macon County Commission issued Series 2006 Limited Obligation School Warrants. The Board agreed to pay all principal and interest on the Series 2006 Warrants and when the Series 2006 Warrants have been fully paid, the County will convey the assets, in their then condition, to the Board without payment of any further consideration to the County by the Board.

On February 1, 2004, the Board entered into a funding agreement (in the form of a sale-lease back) with the Macon County Commission. Pursuant to this agreement the Board sold the Tuskegee Elementary School, which is also located in the City of Tuskegee, Alabama, and the remaining components of the School improvements to the Macon County Commission for \$4,370,000. To obtain the sum of \$4,370,000, the Macon County Commission issued Series 2004 Limited Obligation School Warrants. The Board agreed to pay all principal and interest on the Series 2004 Warrants and when the Series 2004 Warrants have been fully paid, the County will convey the assets, in their then condition, to the Board without payment of any further consideration to the County by the Board.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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In substance, these agreements were considered as funding agreements rather than sale-lease backs because the Board has continued involvement in the property without transfer of risks and rewards.

The following is a schedule by years of future minimum payments under the agreements presented together with the present value of the net minimum payments as of September 30, 2012.

**2006 Funding Agreement**

Fiscal Year Ending	Governmental Activities
September 30, 2013	\$ 981,531.26
2014	980,506.26
2015	978,925.01
2016	1,006,006.26
2017	1,006,850.01
2018-2022	5,552,712.55
2023-2027	4,090,412.53
2028-2032	5,844,765.65
2033-2037	6,408,718.76
Total Minimum Payments	26,850,428.29
Less: Amount Representing Interest	10,740,428.29
Present Value of Net Minimum Payments	<u>\$16,110,000.00</u>

**2004 Funding Agreement**

Fiscal Year Ending	Governmental Activities
September 30, 2013	\$ 196,650.00
2014	196,650.00
2015	196,650.00
2016	196,650.00
2017	196,650.00
2018-2022	983,250.00
2023-2027	3,322,312.50
2028-2032	1,949,937.50
Total Minimum Payments	7,238,750.00
Less: Amount Representing Interest	2,868,750.00
Present Value of Net Minimum Payments	<u>\$4,370,000.00</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**Capital Improvement Pool Warrants**

During fiscal years 2001, 2002 and 2005, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2001A, 2002A and 2005A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these warrants provided funds for the acquisition, construction and renovation of school facilities.

During fiscal year 2010, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Warrants, Series 2009B, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The proceeds from these warrants were used to refund a portion of the Series 2001A Warrants.

During fiscal year 2011, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Warrants, Series 2011B, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The proceeds from these warrants were used to refund and retire the remainder of the outstanding Series 2001A Warrants.

During fiscal year 2012, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Warrants, Series 2012A, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The proceeds from these warrants were used to refund and retire the outstanding Series 2002A Warrants.



***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2012:

	Debt Outstanding 10/01/2011	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2012	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Warrants Payable:					
2012-A Capital Improvement Refunding Warrants	\$	\$ 826,816.90	\$	\$ 826,816.90	\$ 63,360.81
2002-A Capital Improvement Warrants	1,014,868.36		(1,014,868.36)		
2005-A Capital Improvement Warrants	1,681,333.26		(90,848.59)	1,590,484.67	94,528.21
2009-B Capital Improvement Refunding Warrants	968,477.14			968,477.14	
2011-B Capital Improvement Refunding Warrants	997,990.00		(160,272.00)	837,718.00	165,095.00
2012 Capital Outlay School Warrants		5,750,000.00		5,750,000.00	
2005-A Unamortized Premium	13,976.99		(1,048.28)	12,928.71	1,048.28
2012-A Unamortized Premium		149,524.86		149,524.86	12,460.41
2012 Capital Outlay School Warrants Unamortized Discount		(232,990.00)		(232,990.00)	(8,321.07)
2012-A Unamortized Loss on Refunding		(29,508.66)		(29,508.66)	(2,459.06)
Total Warrants Payable	4,676,645.75	6,463,843.10	(1,267,037.23)	9,873,451.62	325,712.58
Other Liabilities:					
2011-QZAB Capital Outlay Pool Warrant	1,500,000.00			1,500,000.00	
Capital Leases:					
2004 Funding Agreement	4,370,000.00			4,370,000.00	
2006 Funding Agreement	17,725,000.00		(1,615,000.00)	16,110,000.00	310,000.00
Unamortized Discount	(427,006.09)		40,491.00	(386,515.09)	(17,975.40)
Unamortized Loss on Refunding	(397,722.87)	(138,381.36)	28,578.89	(507,525.34)	(34,344.78)
Total Other Liabilities	22,770,271.04	(138,381.36)	(1,545,930.11)	21,085,959.57	257,679.82
Total Governmental Activities					
Long-Term Liabilities	\$27,446,916.79	\$6,325,461.74	\$(2,812,967.34)	\$30,959,411.19	\$583,392.40

Payments on the 2004 and 2006 Funding Agreements are made by the debt service fund with property taxes. Payments on the Capital Improvement Pool Warrants, Series 2002-A and 2005-A, and Capital Improvement Pool Refunding Warrants, Series 2009-B and 2011-B are made with Public School Funds withheld from the Board's allocation from the Alabama Department of Education.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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The following is a schedule of debt service requirements to maturity:

Fiscal Year Ending	Capital Improvement Warrants Series 2012-A		Capital Improvement Warrants Series 2005-A	
	Principal	Interest	Principal	Interest
September 30, 2013	\$ 63,360.81	\$ 37,187.49	\$ 94,528.21	\$ 65,435.40
2014	66,018.21	34,283.10	98,334.71	61,578.15
2015	68,623.52	31,590.25	102,394.98	57,563.56
2016	71,333.03	28,791.13	106,582.14	53,384.02
2017	74,407.27	25,504.30	110,896.18	49,034.44
2018-2022	433,260.80	66,204.48	628,834.63	170,909.49
2023-2027	49,813.26	1,754.92	448,913.82	30,906.92
2028-2032				
2033-2037				
2038-2040				
Totals	<u>\$826,816.90</u>	<u>\$225,315.67</u>	<u>\$1,590,484.67</u>	<u>\$488,811.98</u>

Fiscal Year Ending	Capital Outlay Pool Warrant Series 2011-QZAB		2004 Funding Agreement	
	Principal	Interest	Principal	Interest
September 30, 2013	\$	\$ 69,000.00	\$	\$ 196,650.00
2014		69,000.00		196,650.00
2015		69,000.00		196,650.00
2016		69,000.00		196,650.00
2017		69,000.00		196,650.00
2018-2022		345,000.00		983,250.00
2023-2027	1,500,000.00	276,000.00	2,505,000.00	817,312.50
2028-2032			1,865,000.00	84,937.50
2033-2037				
2038-2040				
Totals	<u>\$1,500,000.00</u>	<u>\$966,000.00</u>	<u>\$4,370,000.00</u>	<u>\$2,868,750.00</u>

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

Capital Improvement Refunding Warrants Series 2009-B		Capital Improvement Refunding Warrants Series 2011-B	
Principal	Interest	Principal	Interest
\$	\$ 48,423.86	\$165,095.00	\$ 42,498.05
176,832.34	48,423.86		38,101.70
184,922.47	39,582.24		38,101.70
192,901.26	30,336.12		38,101.70
202,104.70	20,691.06		38,101.70
211,716.37	10,585.82	672,623.00	96,497.11
<b>\$968,477.14</b>	<b>\$198,042.96</b>	<b>\$837,718.00</b>	<b>\$291,401.96</b>

2006 Funding Agreement		2012 Capital Outlay School Warrants		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 310,000.00	\$ 671,531.26	\$	\$ 172,500.00	\$ 1,936,210.08
320,000.00	660,506.26		230,000.00	1,999,728.33
330,000.00	648,925.01		230,000.00	1,997,353.73
370,000.00	636,006.26		230,000.00	2,023,085.66
385,000.00	621,850.01		230,000.00	2,023,239.66
2,710,000.00	2,842,712.55		1,150,000.00	10,321,594.25
1,830,000.00	2,260,412.53		1,150,000.00	10,870,113.95
3,975,000.00	1,869,765.65		1,150,000.00	8,944,703.15
5,880,000.00	528,718.76	1,605,000.00	1,150,000.00	9,163,718.76
		4,145,000.00	294,400.00	4,439,400.00
<b>\$16,110,000.00</b>	<b>\$10,740,428.29</b>	<b>\$5,750,000.00</b>	<b>\$5,986,900.00</b>	<b>\$53,719,147.57</b>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **Bond Issuance Costs, Premiums, Discounts and Loss on Refunding**

The Board has issuance costs as well as discounts, and loss on refunding in connection with the 2006 Funding Agreement with Macon County Commission. The issuance costs and discounts are being amortized using the straight-line method over a period of thirty years. The loss on refunding is being amortized using the straight-line method over a period of eighteen years.

The Board has issuance costs as well as discounts in connection with the 2004 Funding Agreement with Macon County Commission. The issuance costs and discounts are being amortized using the straight-line method over a period of twenty-five years.

The Board has issuance costs as well as premiums in connection with the issuance of the Series 2005-A Capital Improvement Warrants. The issuance costs and premiums are being amortized using the straight-line method over a period of twenty years.

The Board has issuance costs as well as discounts, and loss on refunding in connection with the issuance of the Series 2012 Capital Outlay School Warrants. The issuance costs and discounts are being amortized using the straight-line method over a period of twenty-eight years. The loss on refunding is being amortized using the straight-line method over a period of twenty-four years.

The Board has issuance costs as well as premiums, and loss on refunding in connection with the issuance of the Series 2012-A Capital Improvement Refunding Warrants. The premiums and loss on refunding are being amortized using the straight-line method over a period of twelve years.

	Issuance Costs	Premium	Discount	Loss on Refunding
Total Issuance Costs, Premium, Discount and Loss on Refunding	\$1,212,767.18	\$170,490.38	\$768,694.00	\$682,310.02
Amount Amortized Prior Years	198,934.45	6,988.53	108,697.91	116,697.13
Balance Issuance Costs, Premium, Discount and Loss on Refunding	1,013,832.73	163,501.85	659,996.09	565,612.89
Current Amount Amortized	76,221.24	1,048.28	40,491.00	28,578.89
Balance Issuance Costs, Premium, Discount and Loss on Refunding	<u>\$ 937,611.49</u>	<u>\$162,453.57</u>	<u>\$619,505.09</u>	<u>\$537,034.00</u>

#### **Pledged Revenues**

The Board issued a Series 2011 QZAB Capital Outlay Pool Warrant which is pledged to be repaid from their allocation of Public School Funds received from the State of Alabama. The proceeds are to be used for the repair of the HVAC system at the Booker T. Washington High School. Future revenues in the amount of \$1,127,151.30 are pledged for the payment of the principal, sinking fund deposits and interest on the Pool Warrant at September 30, 2012. The Series 2011-QZAB warrant will mature in fiscal year 2026.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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The Board issued 2005-A Capital Improvement Pool Warrants and Series 2009-B, 2011-B, and 2012-A Capital Improvement Pool Refunding Warrants all of which are pledged to be repaid from their allocation of Public School Funds received from the State of Alabama. The proceeds from the 2005-A Warrants are to be used for the acquisition, construction and renovation of school facilities. The proceeds from the 2009-B and 2011-B Warrants were used for the refunding of the Series 2001-A Capital Improvement Pool Warrants. The proceeds from the 2012-A Warrants were used for the refunding of the Series 2002-A Capital Improvement Pool Warrants. Future revenues in the amount of \$5,427,069.28 are pledged to repay the principal and interest on the bonds at September 30, 2012. Pledged revenues in the amount of \$521,205.50 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2012. This amount represents 100 percent of the pledged revenues received by the Board. The Series 2005-A, 2009-B, 2011-B, and 2012-A Warrants will mature in fiscal years 2025, 2018, 2021, and 2024, respectively. For fiscal year 2012, the pledged amount represented approximately 80% of the Board's capital purchase allocation.

On February 1, 2004 and November 1, 2006, the Board entered into funding agreements, respectively named 2004 Funding Agreement and 2006 Funding Agreement, (in the form of a sale-lease back) with the Macon County Commission. In substance, these agreements were considered as funding agreements rather than sale-lease backs because the Board has continued involvement in the property without transfer of risks and rewards. The funding agreements are pledged to be repaid from the proceeds of a 3-mill County-Wide Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 1-mill County-Wide Ad Valorem Tax pursuant to Section 269 of the Constitution of Alabama of 1901 (as amended by Amendment Number 111 to the said Constitution), 5-mill County Ad Valorem Tax pursuant to Amendment Number 202 to the Constitution of Alabama of 1901, 10-mill County Ad Valorem Tax pursuant to Amendment Number 420 to the Constitution of Alabama of 1901, 3-mill District One Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 3-mill District Two Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, Greyhound Racing Pari-Mutuel Revenues provided by Act Number 87-207, Acts of Alabama. The proceeds of the 2004 Funding Agreement were used to acquire Tuskegee Elementary School.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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The proceeds of the 2006 Funding Agreement were used to construct a garage building or facility for the maintenance, repair and parking of school buses of the Board, an early childhood or kindergarten center for use by preschool children and renovations and improvements to D. C. Wolfe School and Notasulga High School in the County as well as project improvements to the Booker T. Washington High School, which is a consolidated high school building located in the City of Tuskegee, Alabama. The proceeds were also used to refund and retire Limited Obligation School Warrants, Series 1999 in the amount of \$12,995,000. Future revenues in the amount of \$34,089,178.29 are pledged to repay the principal and interest on the funding agreements at September 30, 2012. Pledged funds in the amount of \$1,318,421.89 were used to pay principal and interest on the funding agreements during the fiscal year ended September 30, 2012. This amount represents 100 percent of the pledged funds received by the Board. The 2004 Funding Agreement and the 2006 Funding Agreement will mature in fiscal years 2029 and 2036, respectively.

On July 24, 2012, the Board issued \$5,750,000.00 of its Capital Outlay School Warrants dated July 1, 2012 to provide for the advance refunding of a portion of the Limited Obligation School Warrants, Series 2006, issued by the Macon County Commission on-behalf of the Board pursuant to the 2006 Funding Agreement and to construct, acquire, improve and equip certain capital improvements used to provide educational instruction.

The 2012 Capital Outlay School Warrants are pledged to be repaid from the proceeds of a 3-mill County-Wide Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 1-mill County-Wide Ad Valorem Tax pursuant to Section 269 of the Constitution of Alabama of 1901 (as amended by Amendment Number 111 to the said Constitution), 5-mill County Ad Valorem Tax pursuant to Amendment Number 202 to the Constitution of Alabama of 1901, 10-mill County Ad Valorem Tax pursuant to Amendment Number 420 to the Constitution of Alabama of 1901, 3-mill District One Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, 3-mill District Two Ad Valorem Tax pursuant to Amendment Number 3 to the Constitution of Alabama of 1901, Greyhound Racing Pari-Mutuel Revenues provided by Act Number 87-207, Acts of Alabama. Future revenues in the amount of \$11,736,900.00 are pledged to repay the principal and interest on the 2012 Capital Outlay School Warrants at September 30, 2012. The 2012 Capital Outlay School Warrants will mature in fiscal year 2040.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### *Defeased Debt*

On March 14, 2012, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$79,340,000.00 in Capital Improvement Pool Refunding Bonds Series 2012-A (“Series 2012-A”) with interest rates ranging from 4% to 5% to advance refund \$65,655,000.00 of outstanding Capital Improvement Pool Bonds Series 2002-A (“Series 2002-A”) which were scheduled to mature in fiscal year 2022 with an interest rate of 5%. The net proceeds of \$67,692,098.21 for Series 2002-A after a premium of \$10,398,112.89 and payment of \$203,712.68 in underwriting fees and other issuance costs were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2002-A which were refunded. As a result, the Series 2002-A are considered to be defeased and the liabilities for those bonds have been removed.

The Board had a 1.438% participation in the Series 2002-A. This resulted in the Board being obligated for \$826,816.90 of the total principal for the Series 2012-A. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$973,412.37. The liability removed was \$943,903.71.

The Board’s portion of the refunding resulted in a difference between the reacquisition price and net carrying amount of the Series 2002-A of \$29,508.66. As a result of the refunding, the Board reduced its total debt service requirements by \$153,026.57, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$145,070.27.

On July 24, 2012, the Board issued \$5,750,000.00 in Capital Outlay School Warrants with an interest rate of 4% to advance refund a portion of the Limited Obligation School Warrants, Series 2006, with interest rates of 3.5% to 4% issued pursuant to the 2006 Funding Agreement with Macon County Commission. Of the net proceeds which totaled \$5,310,470.93 (after an original issue discount of \$232,990.00, issuance costs of 221,233.51, accrued interest of \$14,694.44, \$3,500,000 in capital improvements and \$472,089.57 for future interest payments), \$1,338,381.36 were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the Series 2006 Limited Obligation School Warrants. As a result, \$1,200,000.00 of the Limited Obligation School Warrants, Series 2006, issued pursuant to the 2006 Funding Agreement with Macon County Commission are considered to be defeased and the liabilities for those warrants have been removed.

The Board’s portion of the refunding resulted in a difference between the reacquisition price and net carrying amount of the Series 2006 Limited Obligation School Warrants of \$138,381.36. As a result of the refunding, the Board increased its total debt service requirements by \$1,117,134.04, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$115,654.72.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### Note 9 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Automobile liability insurance and errors and omissions insurance are purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Board's coverage in any of the past three fiscal years.

The Board does not have insurance coverage of job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama 1975*, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs which the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment.



***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

**Note 10 – Interfund Transactions**

**Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2012, were as follows:

	Interfund Receivables			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
<b>Interfund Payables:</b>				
General Fund	\$	\$10,883.46	\$	\$ 10,883.46
Special Revenue Fund	94,391.44		12,317.05	106,708.49
Totals	<u>\$94,391.44</u>	<u>\$10,883.46</u>	<u>\$12,317.05</u>	<u>\$117,591.95</u>

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ended September 30, 2012, were as follows:

	Transfers Out				Total
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
<b>Transfers In:</b>					
General Fund	\$	\$14,757.54	\$	\$	\$ 14,757.54
Special Revenue Fund	272,590.10				272,590.10
Debt Service Fund				399,026.42	399,026.42
Capital Projects Fund			205,575.00		205,575.00
Totals	<u>\$272,590.10</u>	<u>\$14,757.54</u>	<u>\$205,575.00</u>	<u>\$399,026.42</u>	<u>\$891,949.06</u>

The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools.

**Note 11 – Construction and Other Significant Commitments**

At September 30, 2012, the Board was obligated under a significant contract in the amount of \$3,789,201.00 for energy savings measures for Macon County schools.

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*Required Supplementary Information*

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2012***

	<b>Budgeted Amounts</b>		<b>Actual Amounts Budgetary Basis</b>
	<b>Original</b>	<b>Final</b>	
<b><u>Revenues</u></b>			
State	\$ 14,480,290.10	\$ 14,841,079.00	\$ 14,901,218.16
Federal	91,100.00	91,100.00	329,437.00
Local	2,860,810.00	2,956,019.53	3,418,341.59
Other	107,520.00	107,520.00	119,969.82
Total Revenues	<u>17,539,720.10</u>	<u>17,995,718.53</u>	<u>18,768,966.57</u>
<b><u>Expenditures</u></b>			
Current:			
Instruction	10,292,351.29	10,290,315.76	10,394,218.68
Instructional Support	2,728,547.39	2,889,265.92	2,963,717.54
Operation and Maintenance	2,323,132.35	2,663,288.42	2,250,925.24
Auxiliary Services:			
Student Transportation	1,662,775.00	1,750,606.96	1,740,433.20
General Administration and Central Support	1,312,881.50	1,312,881.50	1,511,432.34
Other	70,848.10	114,766.91	155,003.62
Total Expenditures	<u>18,390,535.63</u>	<u>19,021,125.47</u>	<u>19,015,730.62</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(850,815.53)</u>	<u>(1,025,406.94)</u>	<u>(246,764.05)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Indirect Cost	161,068.26	183,019.76	153,085.01
Transfers In	334,125.00	334,125.00	14,757.54
Other Financing Sources			36,090.12
Transfers Out	(426,489.10)	(270,090.10)	(272,590.10)
Total Other Financing Sources (Uses)	<u>68,704.16</u>	<u>247,054.66</u>	<u>(68,657.43)</u>
Net Change in Fund Balances	(782,111.37)	(778,352.28)	(315,421.48)
Fund Balances - Beginning of Year	<u>1,800,000.00</u>	<u>2,397,134.70</u>	<u>2,397,134.70</u>
Fund Balances - End of Year	<u>\$ 1,017,888.63</u>	<u>\$ 1,618,782.42</u>	<u>\$ 2,081,713.22</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 14,901,218.16
		329,437.00
(1)	209,239.07	3,627,580.66
		119,969.82
	<u>209,239.07</u>	<u>18,978,205.64</u>
(2)	201,295.74	10,192,922.94
(2)	19,524.17	2,944,193.37
(2)	5,370.09	2,245,555.15
(2)	4,050.32	1,736,382.88
(2)	(8,616.60)	1,520,048.94
(2)	9,745.93	145,257.69
	<u>231,369.65</u>	<u>18,784,360.97</u>
	<u>440,608.72</u>	<u>193,844.67</u>
		153,085.01
		14,757.54
		36,090.12
		<u>(272,590.10)</u>
		<u>(68,657.43)</u>
	440,608.72	125,187.24
(3)	<u>(1,513,770.77)</u>	<u>883,363.93</u>
	<u>\$ (1,073,162.05)</u>	<u>\$ 1,008,551.17</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2012***

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**Explanation of differences between Actual Amounts on Budgetary  
Basis and Actual Amounts GAAP Basis:**

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets for revenues only to the extent they are actually received rather than on the modified accrual basis (GAAP).
- (2) The Board budgets for salaries only to the extent expected to be paid rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

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\$ 209,239.07

231,369.65

\$ 440,608.72

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2012***

	<b>Budgeted Amounts</b>		<b>Actual Amounts Budgetary Basis</b>
	<b>Original</b>	<b>Final</b>	
<b><u>Revenues</u></b>			
Federal	\$ 4,860,767.00	\$ 6,025,033.32	\$ 5,317,071.23
Local	366,868.00	403,153.00	396,908.39
Other	36,500.00	39,000.00	58,839.07
Total Revenues	5,264,135.00	6,467,186.32	5,772,818.69
<b><u>Expenditures</u></b>			
Current:			
Instruction	1,394,201.30	1,577,918.68	1,377,869.03
Instructional Support	1,267,018.48	1,781,635.51	1,699,971.55
Operation and Maintenance	11,240.00	122,636.31	90,351.00
Auxiliary Services:			
Student Transportation	62,520.00	158,348.42	108,674.31
Food Service	1,980,090.50	2,013,840.50	1,891,569.38
General Administration and Central Support	477,990.26	588,972.70	537,795.75
Other	306,088.22	489,757.19	326,308.37
Capital Outlay	111,190.69	111,190.69	
Total Expenditures	5,610,339.45	6,844,300.00	6,032,539.39
Excess (Deficiency) of Revenues Over Expenditures	(346,204.45)	(377,113.68)	(259,720.70)
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	460,516.10	296,340.10	272,590.10
Other Financing Sources	80.00	80.00	
Transfers Out	(34,027.00)	(37,092.00)	(14,757.54)
Total Other Financing Sources (Uses)	426,569.10	259,328.10	257,832.56
Net Change in Fund Balances	80,364.65	(117,785.58)	(1,888.14)
Fund Balances - Beginning of Year	1,433,670.68	1,167,377.07	1,148,833.46
Fund Balances - End of Year	\$ 1,514,035.33	\$ 1,049,591.49	\$ 1,146,945.32



	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 5,317,071.23
		396,908.39
		58,839.07
		<u>5,772,818.69</u>
		1,377,869.03
		1,699,971.55
		90,351.00
		108,674.31
(1)	14,187.23	1,877,382.15
		537,795.75
		326,308.37
	<u>14,187.23</u>	<u>6,018,352.16</u>
	<u>14,187.23</u>	<u>(245,533.47)</u>
		272,590.10
		<u>(14,757.54)</u>
		<u>257,832.56</u>
	14,187.23	12,299.09
(2)	<u>(67,794.06)</u>	<u>1,081,039.40</u>
	<u>\$ (53,606.83)</u>	<u>\$ 1,093,338.49</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2012***

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**Explanation of differences between Actual Amounts on Budgetary  
Basis and Actual Amounts GAAP Basis:**

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets for salaries only to the extent expected to be paid rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balances reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

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\$ 14,187.23

\$ 14,187.23

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2012***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Child Nutrition Cluster:		
School Breakfast Program - Cash Assistance	10.553	N/A
National School Lunch Program		
Cash Assistance	10.555	N/A
Non-Cash Assistance (Commodities)	10.555	N/A
National School Lunch Program Sub-Total		
Sub-Total Child Nutrition Cluster		
<b><u>Passed Through the Macon County Commission</u></b>		
School and Roads - Grants to States	10.665	N/A
Total U. S. Department of Agriculture		
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Programs</u></b>		
Impact Aid	84.041	N/A
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A
<b><u>Passed Through Alabama Department of Education</u></b>		
Title I Grants to Local Educational Agencies (M)	84.010	N/A
Special Education Cluster:		
Special Education - Grants to States	84.027	N/A
Special Education - Preschool Grants	84.173	N/A
Sub-Total Special Education Cluster		
Career and Technical Education - Basic Grants to States	84.048	N/A
Education for Homeless Children and Youth	84.196	N/A
Rural Education	84.358	N/A
Improving Teacher Quality State Grants (M)	84.367	N/A
Education Jobs Fund	84.410	N/A
Total U. S. Department of Education		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2011-09/30/2012	\$ 502,878.79	\$ 502,878.79	\$ 502,878.79	\$ 502,878.79
10/01/2011-09/30/2012	963,609.69	963,609.69	963,609.69	963,609.69
10/01/2011-09/30/2012	85,094.00	85,094.00	85,094.00	85,094.00
	<u>1,048,703.69</u>	<u>1,048,703.69</u>	<u>1,048,703.69</u>	<u>1,048,703.69</u>
	1,551,582.48	1,551,582.48	1,551,582.48	1,551,582.48
10/01/2011-09/30/2012	<u>21,725.71</u>	<u>21,725.71</u>	<u>21,725.71</u>	<u>21,725.71</u>
	1,573,308.19	1,573,308.19	1,573,308.19	1,573,308.19
10/01/2011-09/30/2012	41,707.42	41,707.42	41,707.42	41,707.42
10/01/2011-09/30/2012	5,914.71	5,914.71	5,914.71	5,914.71
10/01/2011-09/30/2012	2,248,234.34	2,248,234.34	2,023,554.01	2,023,554.01
10/01/2011-09/30/2012	777,081.84	777,081.84	655,178.38	655,178.38
10/01/2011-09/30/2012	19,744.00	19,744.00	19,744.00	19,744.00
	<u>796,825.84</u>	<u>796,825.84</u>	<u>674,922.38</u>	<u>674,922.38</u>
10/01/2011-09/30/2012	116,423.00	116,423.00	116,423.00	116,423.00
10/01/2011-09/30/2012	10,000.00	10,000.00	10,000.00	10,000.00
10/01/2011-09/30/2012	74,509.93	74,509.93	74,509.93	74,509.93
10/01/2011-09/30/2012	464,258.68	464,258.68	356,185.77	356,185.77
10/01/2011-09/30/2012	101,496.31	101,496.31	101,496.31	101,496.31
	<u>3,859,370.23</u>	<u>3,859,370.23</u>	<u>3,404,713.53</u>	<u>3,404,713.53</u>
	\$ 5,432,678.42	\$ 5,432,678.42	\$ 4,978,021.72	\$ 4,978,021.72

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2012***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
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Sub-Total Brought Forward

**Department of Health and Human Services**

**Direct Program**

Teenage Pregnancy Prevention Program (M)	93.297	N/A
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Sub-Total Teenage Pregnancy Prevention Program

**Social Security Administration**

**Passed Through Alabama Department of Education**

Social Security - Disability Insurance	96.001	N/A
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**Other Federal Assistance**

**U. S. Department of Defense**

**Direct Program**

Army ROTC	N/A	N/A
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Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Applicable or Not Available

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.



Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 5,432,678.42	\$ 5,432,678.42	\$ 4,978,021.72	\$ 4,978,021.72
09/01/2011-08/31/2012	553,868.00	553,868.00	382,398.00	382,398.00
09/01/2012-08/31/2013	427,172.00	427,172.00	221,326.68	221,326.68
	981,040.00	981,040.00	603,724.68	603,724.68
10/01/2011-09/30/2012	898.00	898.00	898.00	898.00
10/01/2011-09/30/2012	63,863.83	63,863.83	63,863.83	63,863.83
	\$ 6,478,480.25	\$ 6,478,480.25	\$ 5,646,508.23	\$ 5,646,508.23

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2012***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Macon County Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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## *Additional Information*

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***Board Members and Administrative Personnel***  
***October 1, 2011 through September 30, 2012***

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<b>Board Members</b>		<b>Term Expires</b>
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Hon. Theodore Samuel	President	2014
Hon. Elnora Smith Love	Vice-President	2018
Hon. Katy Campbell	Member	2018
Hon. Mary H. Hooks	Member	2016
Hon. Karey Thompson	Member	2016

**Administrative Personnel**

Dr. Jacqueline A. Brooks, Ed.D.	Superintendent
Natalie Young	Chief School Financial Officer

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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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We have audited the financial statements of the governmental activities and each major fund of the Macon County Board of Education as of and for the year ended September 30, 2012, which collectively comprise the Macon County Board of Education's basic financial statements and have issued our report thereon dated June 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Macon County Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Macon County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Macon County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Macon County Board of Education's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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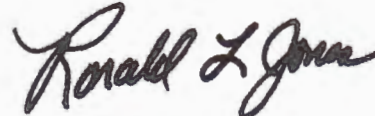
***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Macon County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, members of the Macon County Board of Education, the Superintendent, the Chief School Financial Officer, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

June 18, 2013

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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***Independent Auditor's Report***

***Compliance***

We have audited the Macon County Board of Education's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Macon County Board of Education's major federal programs for the year ended September 30, 2012. The Macon County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Macon County Board of Education's management. Our responsibility is to express an opinion on the Macon County Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Macon Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Macon County Board of Education's compliance with those requirements.

In our opinion, the Macon County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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**Internal Control Over Compliance**

Management of the Macon County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Macon County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Macon County Board of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.



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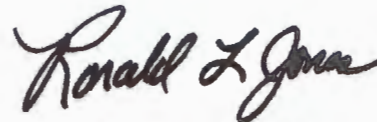
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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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This report is intended solely for the information and use of management, members of the Macon County Board of Education, the Superintendent, the Chief School Financial Officer, and others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

June 18, 2013

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2012***

**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:  
 Material weakness(es) identified?                           Yes      X   No

Significant deficiency(ies) identified?                   Yes      X   None reported

Noncompliance material to financial  
 statements noted?                                               Yes      X   No

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified?                           Yes      X   No

Significant deficiency(ies) identified?                   Yes      X   None reported

Type of auditor's report issued on compliance  
 for major programs: Unqualified

Any audit findings disclosed that are required  
 to be reported in accordance with  
 Section 510(a) of OMB Circular A-133?                   Yes      X   No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants
93.297	Teenage Pregnancy Prevention Program

Dollar threshold used to distinguish between  
 Type A and Type B programs:                        \$300,000.00

Auditee qualified as low-risk auditee?              X   Yes           No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2012***

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**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	